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Performance Analysis of Spin-Off Company Stock Price in Indonesia Stock Exchange

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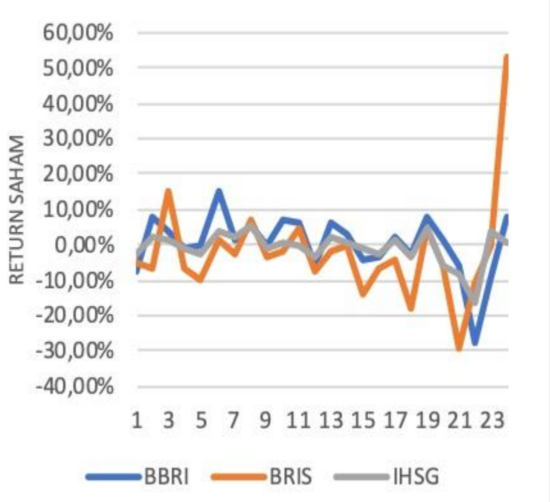
ABSTRACT

The purpose of this study is to see a significant difference in excess return, return on equity of the parent company and spin-off companies on the Indonesia Stock Exchange. This research is an event study using data types, namely quantitative data taken from the Indonesia Stock Exchange database in 2009 - 2020. The populations in this study were 8 companies in which there were 4 companies in the construction sector, 1 company in the retail sector, 1 company in the consumer goods sector and 2 companies in the banking sector.

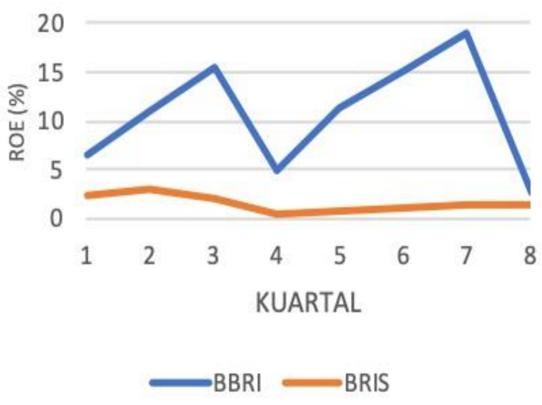
Keywords: *Spin-off, Excess Return and Return on Equity*

INTRODUCTION

The spin-off company is a separate subsidiary from the parent company, and then the separated company becomes an independent company. The company's spin-off process will not eliminate or eliminate the existence of a legally appointed company. That way, the parent company that does the spin-off can still run its business activities. Companies that have carried out spin-offs can still establish cooperation with new companies resulting from the separation that have stood alone. However, it is also possible for each company that has been legally established to run its own business activities without establishing cooperation. Research conducted by Joel Greenblatt in his book entitled "You can be a stock market genius: uncover the secret hiding places of stock market profits" found that historically spin-off company stock prices consistently outperformed average market prices and stock prices its parent company. Whereas Peter Lynch in his book "One up On Wall Street" said that one of the characteristics of The Perfect Stock is spin-off company shares. The reason most often mentioned in the literature for companies that make spinoffs is the possibility for companies to concentrate on their core business. After a subsidiary becomes independent through the spin-off process of resources that originally belonged to the parent company now belongs to the company itself and it causes the market to assess the company more efficiently and produce higher valuations, it has an impact on the stock price of the spin-off company itself.



In Figure 1.1 stock returns for 24 months (years) a spin-off company, PT. Bank BRI Syariah. Tbk (BRIS). Tbk. Its share price is only twice that of its parent company's stock, namely PT. Bank Rakyat Indonesia, Tbk (BBRI) and the Composite Stock Price Index (CSPI) during the period. There are several ways to evaluate the performance of stock prices, one of which uses excess return which can show the difference between stock returns and risk-free rates (Santoso, 2016). According to Desai (1999) and McConnel (2004) after spin-off companies are separated from the parent company, it will benefit spin-off companies because management structures are getting leaner so as to make the bureaucratic process faster. ROE (Return On Equity) is a reflection of management effectiveness. This ratio gives investors an assessment of management's ability to effectively build cash from existing assets.



In Figure 1.2, the ROE of the Parent Company is superior to the ROE of the spin-off Company for 2 years (8 quarters). Thus the lean management structure from spin-offs does not make management manage resources

LITERATURE REVIEW

Stock

The general and simple definition is valuable letters that can be bought or sold by individuals or institutions in the market place where they are traded. Shares can also be defined as a sign of capital participation of a person or party (business entity) in a company or limited liability company. By including this capital, the party has a claim on company income, a claim on company assets and is entitled to attend the General Meeting of Shareholders (GMS) (Supramono, 2014).

Stock Price

Stock prices are formed due to demand and supply from investors in the capital market. Stock prices can also be one indicator to see whether a company is healthy and suitable as a place to invest, because with high stock prices will show the company's prosperity in the eyes of investors. In addition, the company's high share price also reflects the prosperity of shareholders, where prosperity is one of the goals of the company (Christiawan, 2007).

Stock Valuation

Stock valuation refers to valuation of the fair price of a stock, which is divided into absolute valuation and relative valuation. Intrinsic value of a stock is defined as a present value derived from cash inflows obtained throughout the company's lifetime (Dewi, 2017). According to Tandelilin (2010) in valuing stock prices there are 3 valuations, namely: book value, market value and intrinsic value.

Book Value

Book value is the value calculated based on the books of companies that issue shares (issuers) (Tandelilin, 2010). According to Setianto (2015) some investors depend on the book value of the company to find clues about the value of the company if it is liquidated. Book value ignores future business, godwill and other intangible values. The advantage to book value as a valuation method is simple and certain. The drawback is that these calculations require input or calculations from an accountant (Spadaccini, 2011).

Return On Equity

Return on equity (ROE) is a comparison between the amount of income compared to the equity (capital) invested. In other words ROE is the ability of the issuer to manage its capital so that it gets a profit. The bigger the ROE, the better the issuer. (Auliya, 2019).

Market Value

Market value is the value determined as the price at which buyers and sellers want to conduct transactions (Vanderhoof, et al 1998). According to Khan (2004) market value is the value reflected in the stock market. The approach through market value is one of the most widely used in determining the value of a company, especially large companies listed on the stock exchange. This value can change suddenly as a result of changes not only in analytical factors but also because of speculative influences, market sentiment to investors' personal decisions. However, market value provides a close approach to the company's true value. In actual practice, stock prices above market prices are often used as an inducement for investors to sell their shares.

Stock Price Performance

According to Best (2013) Stock price performance is an assessment of the number of company transactions and share growth. Stock price performance is very important for investors to assess management more deeply on the things that they can control. For example, with oil companies, if the base price of a barrel of oil rises, most of the company's share price will respond. In this example management throughout the industry would appear to have done a very good job, in fact, oil prices were responsible for the increase in the company's stock price. Management has no control over oil prices, but it has control over exploration costs, which can be a very good barometer for the creation or destruction of value in the long run. In the short term, a focus on stock price performance can hide the operational expertise that actually exists in management

Stock Return

Stock return is the profit enjoyed by investors for the investment made, usually there are two forms of return obtained, namely, current income and capital gains. Current income is returned by investors who are periodic in the form of dividends, while the capital gain is the difference between the selling price and the purchase price of shares. (Ramly, 2019)

Excess Return

Excess return is the difference between stock returns with risk-free rate (Rudiyanto, 2013). Excess returns are the difference between the average stock returns obtained by investors and the expected returns of risk-free instruments, such as deposits, money market funds and so on. If the value of excess return is positive, investors will benefit from stock investment because the benefits obtained exceed the risk-free investment return instrument, and vice versa.

Corporate Action

Issuer action or known as Corporate action is a policy of a company that aims to provide dividends, conduct rights issues, provide stock bonuses and so on (Pradhan, 2014). Corporate action can be classified into two types namely mandatory and voluntary. Mandatory corporate action is an action initiated by a company and a board of directors that affects all shareholders. In this case the shareholders do not need to do anything to benefit from the corporate action. Whereas voluntary corporate action is an action where shareholders choose to participate in the action, or have a choice about how they will receive the benefits to be provided. (Bradford, 2012).

Divestment

Divestment is the sale of an existing business by a company. Divestment is the opposite of investing in new assets. The company may have several motives behind the divestment. First, a company can divest (sell) a business that is not part of its core operations, so that the company can focus more on the best things it does. Second, to get funds. Divestment generates funds for the company because the company sells one of its businesses and in return the company gets some money. The third motive for investing is the value of "fraction" of a company sometimes believed to be greater than the value of the company as a whole. Or in other words, the amount of liquidation of each company's assets exceeds the market value of the combined company assets. This encourages companies to sell parts that have a higher value when liquidated than if it is retained (Madura, 2007).

Spin-Off

The difference in spinoffs by selling a business unit or subsidiary is that if the parent company sells the subsidiary, it means that the company sells the whole and the party buying the subsidiary pays an amount of money to the parent company in accordance with its market value. While in a spinoff, a division or subsidiary becomes a separate business entity but still shares the entity's shares with the parent company. So, the desire of the parent company to make a spin-off is not motivated by the desire of the company to make cash like selling a business unit or subsidiary (Desai: 1999).

Research Purpose

Referring to the research problem formulation that has been described, the purpose of this study is:

1. Analyze whether there is a significant difference Excess Return of shares of the parent company and company spin-offs.
2. Analyzing whether there is a significant difference Return on equity of the parent company and the spin-off company

Benefit On Research

The benefits of this research include the following:

1. For investors, help increase investor understanding of the performance of the parent company's stock prices and spin-off companies.
2. For companies. As a basis and consideration for companies planning to spin off. The company can analyze the potential profit or loss before the spin-off, so the company can develop appropriate steps to raise the price of its shares
3. For Academics. Useful as an additional reference that can be used as an alternative source or concept
4. For researchers. Useful to provide in formulating policies in order to provide the knowledge gained
5. For the Capital Market. As a basis for controlling or supervising issuers that carry out spin-offs. Thus the spin off is expected to provide benefits to all parties

RESEARCH METHODS

This research is an event study is a study that studies the market reaction to an event whose information is published as an announcement. The type of data used in this study is quantitative. Quantitative data is data in the form of numbers or qualitative data that are considered / scoring (Sugiyono, 2017). The data source used is secondary data. Secondary data is data that is already available by other parties so there is no need to be extracted directly from the source by researchers (Sinulingga, 2017). Data obtained from the database of the Indonesian branch office of the Indonesian branch of the Medan city. The sample in this study uses the Purposive Sampling method, in which the sample selected by the criteria of the holding company and spin-offs listed on the Indonesia Stock Exchange for the period 2009 - 2020, so that there are 8 sample companies that will be examined.

RESULT AND DISCUSSION

Based on the results of the analysis and discussion, the following conclusions can be drawn:

1. Based on the results of the excess excess return test between the parent company

and the spin-off company by comparing the stock return with the Indonesian risk-free rate namely JIBOR (Jakarta Interbank Offered Rate), it was found that the spin-off company's stock returns are superior to the parent company's stock returns and not significantly different. Spin-off company stock returns that are superior to the parent company indicate that after the subsidiary company becomes independent through the spin-off process these resources belong to the company itself and this causes the market to assess the company more efficiently and produce higher valuations, it has an impact on the stock price of the spin-off company.

2. Based on the results of different return on equity tests between the parent company and spinoff, it was found that ROE was not significantly different. The ROE of the parent company during the observation period decreased while the ROE of the majority spin-off companies experienced an increase, this indicates that after the spin-off company separated from the parent the spin-off company's management structure was increasingly streamlined so as to make the bureaucratic process faster, thereby increasing the ability management to effectively build cash from existing assets. This resulted in an increase in return on equity of spin-off companies.

CONCLUSION

Based on the results of research and discussion that has been done in this study, the researchers draw the following conclusions:

1. Based on the results of this research, investors who want to buy and sell shares in companies that do business units (spin-offs) should not make this information the only benchmark in investment decision making, but also need to consider factors other factors such as financial performance (cash flow) or fundamentals of the company concerned
2. The results of this study are useful for the Indonesia Stock Exchange to control and supervise spin-off companies. IDX can create a special index of spin-off companies for spin-off companies, to be able to monitor historically and make it easier for investors to see stock price movements and the fundamental performance of spin-off companies.
3. The results of this study can also be considered by companies listed on the Indonesia Stock Exchange who want to divest, namely spin-offs to better plan for a more mature business and need to calculate carefully the initial investment that must be prepared for spinoffs. So that the spin-off process that will be carried out becomes interesting for investors who want to invest in the parent company or the spin-off company itself.
4. The results of this study are useful for academics who wish or are interested in researching on the topic of spin-off company stock price performance listed on the Indonesia Stock Exchange. This research can be continued such as extending the research period, using other statistical test methods, using more samples so that the resulting research concludes much more valid and adds certain variables such as the ratio of financial statements

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